

Asia On My Mind: Rise of Interest in Asia Based Funds

With more than a year under our belts with no travel – except virtually – **allocators are starting to plan for the future.**

And top of mind for interest? Asia. The Jefferies Capital Intelligence team has seen a **marked increase in interest in Asia-based funds – the highest in the last three years.**

Over the past year, despite lock down and an inability to meet with managers in person, allocators still poured more than **\$16 billion into hedge funds in the second half of 2020.**

This was largely achieved by robust background and reference checks, an increase in the number of “meetings” (now virtual) between managers and allocators, and a reluctance to let an entire year pass by without taking advantage of investment opportunities.

But one place where allocators had been more hesitant? Asia.

Given that the Asia alternatives market is in an earlier stage of maturation and development than the U.S. and Europe, allocators found it slightly more difficult to conduct the same depth of reference and background checking, preferring instead to wait to **travel in person once the pandemic ended.**

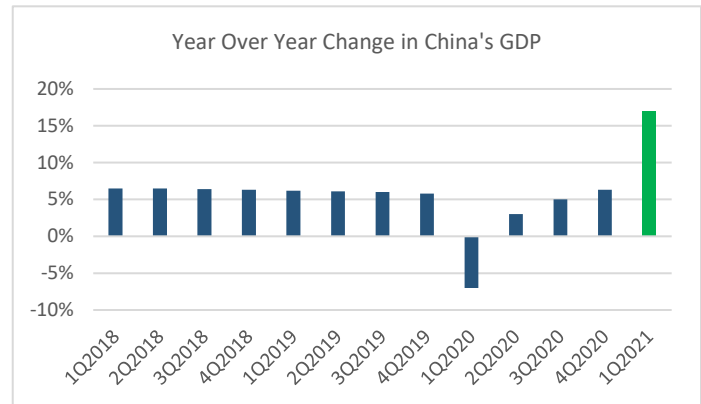
While it is difficult to know the precise day, month or quarter global business travel will truly resume – **it is fair to say that one of the top destinations for future allocator travel is Asia.**

WHAT IS BEHIND THIS ASIA INTEREST

There are a few different factors powering Asia ahead:

1. Rate of normalization of post Covid economies
2. Local growth in output and productivity (especially in China)
3. Inability to travel and meet managers in person or at conferences over past year
4. Considered a less efficient market - less analyst coverage and institutional ownership, larger retail base, and better liquidity than in the past
5. Maturation and institutionalization of local manager landscape, and higher pedigree new launch pipeline
6. Lower correlation to other global equity indices
7. Perception of Asia as a regional leader in crypto investing

We have **seen launches of Asia focused funds of funds, allocators adding headcount dedicated to the region (with an increasing focus on healthcare), and an increase in open mandates,** with many building knowledge of the current regional fund landscape.



Source: National Bureau of Statistics of China

It is hard to perfectly decouple the rise in interest in the region from its economic recovery post pandemic. But, it is also a signal that the Asian alternatives environment has hit a new level of maturation and significance – opening itself up for new and material investment from across the globe.

There are a number of funds that have now been in operation for over a decade. This, together with regional offices of global firms, has created a fertile landscape for stronger pedigreed new launches.

Growth in Allocator Mandates for Asia Focused Funds



Source: Jefferies Prime Services

The opportunity set is considerable. While the APAC alternatives landscape is less mature than its U.S. or European counterparts, allocators increasingly see it as an important piece of portfolios.

Diverse Drivers Creating Interest and Demand for Asia Managers

One of the most material has been the growth in the investing landscape in general in the region. The last 20 years have seen a rotation in contribution to global market cap, with Asia now accounting for approximately **40% of global market cap**.

GROWTH IN REGIONAL MARKET CAP

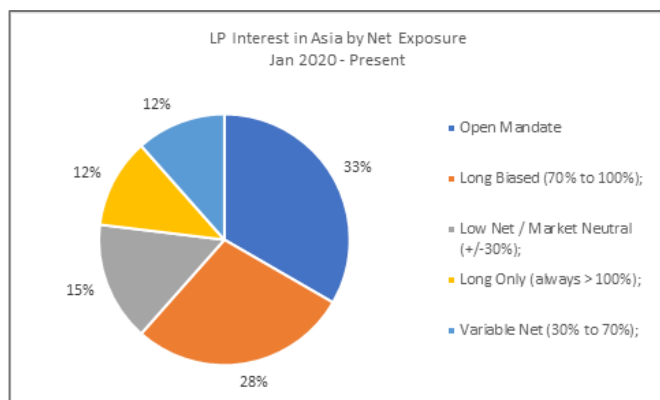
	% Breakdown in Market Capitalization of 10,000 biggest listed companies	% Breakdown of Number of listed companies of the 10,000 biggest listed companies	Average market capitalization of 10,000 biggest listed companies
United States	34%	6%	\$41.2 bn
Advanced Asia	21%	15%	\$9.13 bn
Europe	21%	35%	\$4.63 bn
China	12%	16%	\$5.67 bn
Emerging Asia ex-China	6%	13%	\$3.45 bn
Other Advanced	4%	5%	\$5.90 bn
Latin America	2%	5%	\$2.8 bn
Other Emerging	1%	2%	\$4.19 bn

Source: OECD

This fundamental shift means there are considerable investment opportunities in the region – the most in decades. And given broader capital markets trends, Asia's contribution to the investable universe is only expected to grow.

As such, allocators are dedicating ever more time to understanding the region, and those managers investing in it. A number of allocators report wanting boots on the ground to more effectively navigate earnings calls that are in local languages or understand regulatory nuances. **As one allocator recently noted: "The recent crop of Asian launches now have a combination of US investment experience, language skills and awareness which make them more appealing."**

EXPOSURE PREFERENCES FOR OPEN ASIA MANDATES



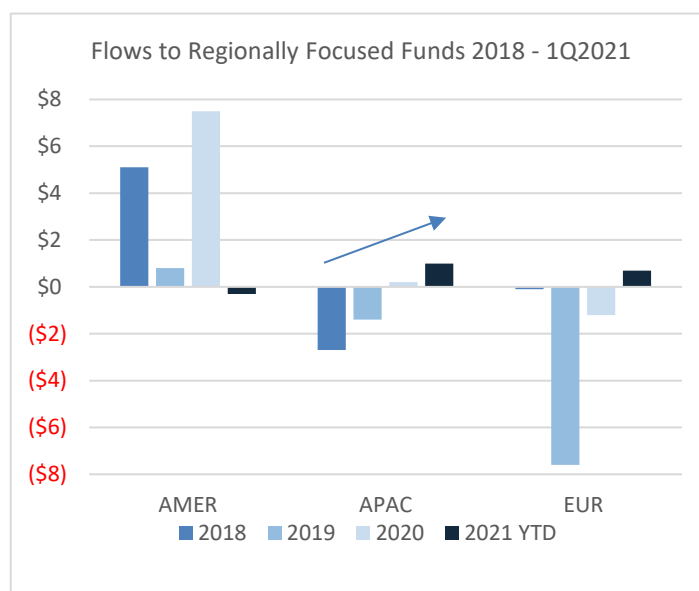
Source: Jefferies Prime Services

Exposure preferences vary broadly. About one third of allocator mandates are wide open, with no limitations around strategy exposures. A smaller but still considerable portion (~30%), are longer biased, and together with the ~10% of long only searches, create about 40% demand that reflect a thematically bullish long term view on the region.

A smaller percentage (~15%) of allocators are seeking a low net or market neutral strategy. A number of allocators anecdotally report dedicating new resources to mapping out the local landscape.

We can see this growth not just in interest, but in allocations. Together with Europe focused funds, Asia focused funds have seen linear growth over the last three years in allocations.

SHIFT IN REGIONALLY FOCUSED FUND INFLOWS



Source: HFR

How Jefferies Can Help

We are continuing to monitor the considerable growth in allocator focus on managers in Asia – and expect this to increase as global travel returns in the coming 12 months.

Given the continuing maturation and institutionalization of the alternatives industry in the region, as well as a number of other diverse tailwinds, the Jefferies Capital Intelligence team expects not only interest to rise, but allocations and inflows to the region to thrive as well. We continue to build out research, sales and trading capabilities in the region for both locally based and US/EMEA based clients.

Please contact us with any questions.

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